

Message Text

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INFO AMEMBASSY ABIDJAN
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C O N F I D E N T I A L SECTION 1 OF 3 ACCRA 6822

DEPT ALSO PASS AID/AFR/CAWA FOR COKER

LAGOS FOR AGATT; LONDON FOR SEITZ

EO 11652: GDS
TAGS: EAID, EAGR, EFIN, IMF, GH
SUBJ: GHANA: CURRENT ECONOMIC SITUATION AND POLICIES, PART II;
RECOMMENDATIONS FOR US ACTION

REF: (A) ACCRA 6764; (B) ACCRA 6400; (C) ACCRA 6467

1. SUMMARY. REFETL (A) DESCRIBED GHANA'S CURRENT
ECONOMIC SITUATION AND THE FEW CONCRETE ECONOMIC POLICIES
ADOPTED TO DATE. THIS COMPANION MESSAGE EXAMINES THE
PROSPECTS FOR SUCH POLICY GHANGES, REPORTS ON GHANA'S
FIRST ROUND OF DISCUSSIONS WITH THE IMF AND OTHER
POTENTIAL SOURCES OF EXTERNAL FINANCE, AND RECOMMENDS
THAT THE U.S. RESERVE FY 1979 RESOURCES TO PERMIT IN-
CREASED COMMODITY AID (POTENTIALLY BOTH TITLE I AND A
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PROGRAM LOAN) TO GHANA IN CONCERT WITH OTHER DONORS, IF
A SATISFACTORY ECONOMIC PROGRAM IS, IN FACT, UNDERTAKEN. END
SUMMARY.

2. IMF. (A) SERIOUS NEGOTIATIONS HAVE BEGUN. A SIX-
MEMBER IMF TEAM VISITED GHANA FROM JULY 31 THROUGH
AUGUST 14 FOR REGULAR ANNUAL ARTICLE IV CONSULTATIONS.

THESE WERE THE FIRST SUCH CONSULTATIONS SINCE THE SPRING OF 1977 AND MUCH OF THE MISSION'S FIRST WEEK WAS TAKEN UP WITH ROUTINE DATA COLLECTION. HOWEVER, DURING THE SECOND WEEK OF DISCUSSIONS THESE CONSULTATIONS MERGED INTO PRELIMINARY NEGOTIATIONS LOOKING TO A FORMAL GOG REQUEST TO THE FUND FOR A STAND-BY ARRANGEMENT TO SUPPORT AN AGREED STABILIZATION PROGRAM. IN CONVERSATIONS AUGUST 14, ON THE EVE OF DEPARTURE OF THE IMF TEAM, THE FINANCE COMMISSIONER, THE COMMISSIONER FOR ECONOMIC PLANNING AND THE IMF TEAM LEADER EACH SEPARATELY ASSURED THE CHARGE, THE ACTING AID MISSION DIRECTOR, AND ECON COUNSELOR THAT SERIOUS NEGOTIATIONS LOOKING TO A STAND-BY ARRANGEMENT HAVE INDEED BEGUN.

(B) RELATIONSHIP TO THE REGULAR BUDGET. THE ARTICLE IV CONSULTATIONS ARE HOWEVER NOT YET COMPLETE. THE IMF TEAM LEADER, G.B. TAPLIN, JUDGED THAT THEY COULD NOT BE CONCLUDED IN ADVANCE OF THE FY 1979 (JULY TO JUNE) BUDGET. FOR THIS REASON, AND TO PERMIT FURTHER IMF COMMENT IN THE CONTEXT OF THE REQUEST FOR A STAND-BY, A GOG TEAM IS TO DISCUSS THE DRAFT BUDGET FURTHER WITH THE IMF IN WASHINGTON AT THE END OF THIS MONTH. THE BUDGET IS THUS EXPECTED TO BE ISSUED IN EARLY SEPTEMBER (THE GOVERNMENT IS OPERATING DURING THE FIRST QUARTER OF FY 1979 ON THE GHANAIAI EQUIVALENT OF A CONTINUING RESOLUTION, WITH EXPENDITURES LIMITED TO THE FY 1978 RATES).

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(C) OUTLOOK. THE REGULAR CONSULTATIONS WILL FINISH AT THE END OF AUGUST, BUT THE STAND-BY NEGOTIATIONS COULD WELL LAST SEVERAL MONTHS. FURTHER NEGOTIATIONS ARE EXPECTED AT THE TIME OF THE ANNUAL WORLD BANK/IMF MEETING IN WASHINGTON, SEPTEMBER 25 TO 28, AND ANOTHER FUND MISSION IS TO VISIT GHANA IN OCTOBER. GOG OFFICIALS ARE EAGER TO CONCLUDE AN AGREEMENT IN TIME FOR A PROGRAM TO GET WELL UNDERWAY BEFORE THE SCHEDULED GHANGEOVER TO CONSTITUTIONAL GOVERNMENT ON JULY 1, 1979. HOWEVER, IMF TEAM MEMBERS HERE HAVE STRESSED THEIR VIEW THAT STABILIZATION PROGRAM NEGOTIATIONS NECESSARILY TAKE CONSIDERABLE TIME, IMPLYING THAT AGREEMENT MIGHT NOT BE REACHED UNTIL LATE 1978, EARLY 1979 OF EVEN LATER.

(D) U.S. INTEREST. IT IS IN OUR INTEREST TO PRESS THE IMF AND NOT PERMIT SCHEDULING AND PERSONNEL PROBLEMS, E.G., PLANNED ROUTINE IMF STAFF VISITS TO OTHER COUNTRIES, TO DISSIPATE THE MOMENTUM IN TERMS OF POPULAR SUPPORT FOR THE NEW GOVERNMENT AND IST ANNOUNCED INTENTION TO IMPLEMENT ECONOMIC REFORMS.

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DEPT ALSO PASS AID/AFR/CAWA FOR COKER
ALGOS FOR AGATT; LONDON FOR SEITZ

3. OTHER SOURCES OF EXTERNAL FINANCE. (A) GENERAL. WE UNDERSTAND GHANA IS SEEKING ABOUT ONE BILLION DOLLARS TO SUPPORT ITS ECONOMIC POLICY PACKAGE, BUT WE HAVE HEARD FIGURES RANGING FROM 500 MILLION TO TWO BILLION. THE WEST GERMANS HERE WERE TOLD BY FORMER FINANCE COMMISSIONER APPIAH THAT THE GOG NEEDED 500 MILLION DOLLARS IN FOREIGN LOANS TO SUPPORT ITS PROGRAM; IT HOPED, HE SAID, TO OBTAIN 200 MILLION DOLLARS FROM THE IMF, 100 MILLION FROM THE IBRD AND WESTERN DONORS; AND THE REMAINING 200 MILLION FROM PRIVATE COMMERCIAL BANKS. GOG OFFICIALS TOLD THE IMF TEAM, ON THE OTHER HAND, THAT THEY NEEDED ONE BILLION, WHILE CAPITAL INVESTMENTS BOARD EXECUTIVE CHAIRMAN AS TOLD ECON COUNSELOR THAT IF NEEDED "ONE TO TWO BILLION."
(B) IMF. LARGE SUMS COULD IN FACT BE MADE AVAILABLE BY THE IMF TO SUPPORT STABILIZATION PROGRAM AGREED
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UPON WITH IT. THE IMF PEOPLE TELL US THE STAND-BY
COULD AMOUNT TO AS MUCH AS DLS 375 MILLION OVER THREE

YEARS "IF THE GOG PLAED ITS CARDS WRITHT." TWO HUNDRED MILLION OF MORE COULD BE DRAWN WITHIN A YEAR TO 18 MONTHS DEPENDING ON THER TERMS OF THE STAND-BY.

(C) OTHER DONORS. WESTERN DONORS ARE GENERALLY ENCOURAGED BY THE PRESENT OPPORTUNITY FOR ECONOMIC CHANGE, BUT IN RESPONSE TO GOG APPROACHES FOR SHORT-TERM BALANCE OF PAYMENTS SUPPORT GENERALLY SEEM TO PREFER TO AWAIT FURTHER ECONOMIC POLICY ANNOUNCEMENTS AND THE OUTCOME OF GHANA'S DISCUSSIONS WITH THE IMF BEFORE AGREEING TO PROVIDE ANY ADDITIONAL ASSISTANCE. AN IMPORTANT EXCEPTION IS THE UK WHICH IS PROVIDING SOME ASSISTANCE NOW. (ACCRA 6467).

(D) PRIVATE INVESTMENT BANKING GROUP. SIMULTANEOUSLY WITH THEIR DISCUSSIONS WITH THE IMF, GOG OFFICIALS WERE ALSO SEEKING ADVACE AND FUNDS FROM AN IMPORTANT PRIVATE INVESTMENT GROUP HEADED BY LEHMAN BROTHERS-KUHN LOEB AND INCLUDING S.G. WARBURG (UK) AND LAZARD FRERES (FRANCE). THE BANK OF GHANA HAS REPORTEDLY APPOINTED THESE BANKS TO ACT AS TECHNICAL ADVISERS. SOME SEVEN EXPERTS FROM THIS GROUP VISITED GHANA FOR SEVERAL DAYS ENDING AUGUST 11 AND, AS CAPITAL INVESTMENTS BOARD EXECUTIVE CHAIRMAN ADUSEI-POKU TOLD ECONO COUNSELOR AGUST 14, WERE EXPECTED TO MEET IN LONDON TO FORMULATE SPECIFIC ECONOMIC, FINANCIAL AND FISCAL MEASURES TO BE INCLUDED IN GHANA'S PACKAGE OF NEW ECONOMIC POLICIES. GOG ACCEPTANCE OF THESE RECOMMENDED MEASURES MIGHT ALSO BE A BASIS FOR A LOAD TO GHANA. IN ADUSEI-POLUS VIEW THERE WAS LITTLE DANGER OF CONFLICTING RECOMMENDATIONS FROM THE PRIVATE BANKERS AND THE IMF. THE IMF WOULD BE RECOMMENDING BROAD POLICY GOALS, WHILE THE LEHMAN BROTHERS GROUP WOULD BE SUGGESTING SPECIFIC MEASURES TO ACHIEVE SUCH GOALS. WE CONFIDENTIAL

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ASSUME THAT THERE IS LITTLE DANGER OF A LOAN FROM THIS GROUP UNDERCUTTING THE IMF, AS THE BANKING GROUP WOULD PRESUMABLY WANT TO OPERATE WITH THE SECURITY AFFOARDED BY AN IMF STABILIZATION PROGRAM. AS NOTED ABOVE, GHANA IS SEEKING FINANCIAL RESOURCES FROM THE ENTIRE SPECTRUM OF OFFICIAL AND PRIVATE SOURCES. CERTAINLY, THE IMF HAS A CLEAR "COMPARATIVE ADVANTAGE" IN WRITING STABILIZATION PROGRAMS. TO COORDINATE THE AMOUNTS AND PURPOSES OF ASSISTANCE, ADUSEI-POKU TOLD THE ACTING MISSION DIRECTOR AUGUST 14, THE GOG IS CONSIDERING ASKING FOR THE FORMATION OF A CONSULTATIVE GROUP UNDER IBRD/IMF AUSPICES. SUCH A GROUP COULD BE MOST HELPFUL.

(E) CONCLUSION. THUS, IT SEEMS REASONABLE THAT GHANA COULD OBTAIN OVER 500 MILLION DOLARS FROM ALL DONORS AND THE IMF TO FINANCE IMPORTS OVER THE FIRST YEAR OR SO OF A STABILIZATION PROGRAM

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C O N F I D E N T I A L SECTION 3 OF 3 ACCRA 6822

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4. TIME FRAME FOR AN ECONOMIC PROGRAM. (A) NEGOTIATIONS.
AS NOTED ABOVE, GHANA AND THE IMF MAY WELL NOT REACH
FINAL AGREEMENT ON A STABILIZATION PROGRAM BEFORE EARLY 1979.
(B) THE PROGRAM ITSELF. THERE IS NO QUICK SOLUTION TO
GHANA'S ECONOMIC ILLS. THE TASK OF BRINGING DISCIPLINE
INTO THE MANAGEMENT OF THE ECONOMY, BY IMPLEMENTING
NECESSARY FISCAL AND MONETARY POLICIES TO A POINT WHERE
GHANA IS GENERATING INTERNAL RESOURCES FOR DEVELOPMENT,
IS LIKELY TO REQUIRE THREE TO FIVE YEARS OR MORE. IT IS
ENOUGH TO LOOK AT THE FY'78 BUDGET DEFICIT (REFTEL A) TO
REALIZE THAT SEVERAL FISCAL YEARS WILL BE REQUIRED TO
BALANCE THE BUDGET.

5. IMPLICATIONS FOR THE U.S. (A) GNERAL SITUATION.
FOR THE FIRST TIME SINCE AT LEAST 1974 AND PERHAPS
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EVEN SINCE THE BUSIA GOVERNMENT FELL IN JANUARY 1972, THERE IS THE CLEAR POSSIBILITY OF REVERSING GHANA'S ECONOMIC DECLINE WHICH, WE GUESS, HAS BROUGHT PER CAPITA INCOME BACK DOWN TO ABOUT ITS LEVEL AT THE TIME OF INDEPENDENCE IN 1957. WE SHARE THE BRITISH VIEW (REFTEL C) THAT THIS WESTERN-ORIENTED GOVERNMENT IS MORE CAPABLE OF SOLVING GHANA'S ECONOMIC PROBLEMS THAN ANY LIKELY PRESENT ALTERNATIVE. NO ECONOMIC REFORM PROGRAM, WHICH AS A MINIMUM WILL HAVE TO ADDRESS THE PROBLEMS OF INFLATION, THE STILL OVERVALUED CURRENCY, THE UNBALANCED BUDGET, THE WIDESPREAD SUBSIDIES, AND PERVASIVE, ALBEIT INEFFECTUAL, PRICE AND DISTRIBUTION CONTROLS, WHICH TOGETHER PROVIDE UNUSUAL SCOPE FOR CORRUPTION AND CREATE SEVERE DISTORTIONS IN THE ECONOMY, CAN SUCCEED IN GHANA WITHOUT PROMPT EXTERNAL SUPPORT. INDUSTRIAL RAW MATERIALS, SPARE PARTS, AND FOOD IMPORTS WILL HAVE TO ARRIVE QUICKLY TO ENSURE ADEQUATE SUPPLIES OF GOODS SO THAT THE EFFORT TO HALT INFLATION AND STABILIZE THE ECONOMY CAN SUCCEED. FURTHERMORE, THE PRESENT SITUATION, WITH MANY INDUSTRIES EITHER ENTIRELY SHUT DOWN OR NEARLY SO FAR LACK OF IMPORTED RAW MATERIALS, HAS IMPORTANT LABOR AND POLITICAL IMPLICATIONS. UNLESS THE GOVERNMENT CAN REESTABLISH AN ORDERLY, TIMELY FLOW OF IMPORTS TO ENABLE INDUSTRIES TO OPERATE AT ECONOMIC LEVELS OF PRODUCTION, THEY WILL NOT BE ABLE TO MEET DEMANDS FROM WORKERS INCREASING RESTIVE IN THE FACE OF 150 PERCENT INFLATION AND SHARPLY DECLINING REAL INCOMES. WE PLAN TO REPORT FULLY ON THIS ASPECT BY SEPTEMBER. WE BELIEVE IT IN THE U.S. INTEREST TO SUPPORT THE PRESENT GOVERNMENT AS IT IMPLEMENTS APPROPRIATE POLICY MEASURES.

(B) PRE-CONDITIONS TO ANY US ASSISTANCE. BEFORE THE U.S. COULD ASSIST, HOWEVER, WE MUST FIRST BE PERSUADED THAT GHANA HAS ADOPTED A SATISFACTORY PROGRAM. THUS, AS A MINIMUM, WE MUST SEE THE BUDGET WHICH IS EXPECTED TO CON-

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TAIN IMPORTANT NEW POLICY MEASURES. OTHER MEASURES, SUCH AS AN EXPECTED INCREASE IN THE PRICE PAID PRODUCERS FOR COCOA (ACCRA 6500) MUST ALSO BE ANNOUNCED. THE JUDGMENT OF THE IMF ON THE PROGRAM WILL BE CRITICAL TO OUR OWN ASSESSMENT. SECOND, WE WILL NEED TO BE ASSURED THAT OTHER DONORS ARE ALSO PREPARED TO BE HELPFUL. THESE INCLUDE THE IBRD, AND WESTERN BILATERAL AID DONORS. FINALLY, WE WILL WANT TO ENSURE THAT ANY TRANCHE OF US ASSISTANCE DOES NOT UNDERCUT THE GOG-IMF NEGOTIATIONS WHICH ARE LIKELY TO BE PROTRACTED (PARA 2(C) ABOVE.)

(C) RECOMMENDATIONS. WE RECOMMEND (I) THAT WASHINGTON AGENCIES RESERVE DLS 7 TO 10 MILLION UNDER THE FY 1979 TITLE I PROGRAM TO ENABLE US, SHOULD THE PRE-CONDITIONS NOTED ABOVE BE MET, TO RESPOND FAVORABLY AND PROMPTLY TO GHANA'S REQUEST FOR PL-480 FINANCING OF SUCH

RAW MATERIALS AS COTTON, WHEAT AND TALLOW (ACCRA 5627); AND
(II) THAT SIMILAR TENTATIVE PROVISION BE MADE TO PROVIDE GHANA
WITH A USAID PROGRAM LOAN OF SOME DLS 10 MILLION FROM
FY 1979 FUNDS. HOLMES

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